

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2293-01
Bill No.: HB 989
Subject: Business and Commerce; Employees - Employers, Employment Security
Type: Original
Date: April 17, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Unemployment Compensation Trust Fund	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
Total Estimated Net Effect on <u>All</u> State Funds*	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

*Could exceed \$1,000,000 in a given year.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on <u>All</u> Federal Funds*	\$0*	\$0*	\$0*

***DOES NOT REFLECT POTENTIAL LOSS OF FEDERAL ADMINISTRATIVE
GRANTS DUE TO POSSIBLE NONCOMPLIANCE WITH FEDERAL LAW.**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Labor and Industrial Relations (DOL)** assume the proposed legislation may not conform with Federal law. If Missouri's Employment Security Law is determined to be out of conformity with Federal standards, the consequence could be a loss of certification for Federal Unemployment Tax Act credits (FUTA). A loss of certification would cause (1) all contributing Missouri employers to lose at least \$997 million annually in Federal Unemployment Tax Act credits and (2) the Division of Employment Security to lose an estimated \$40 million annually in administrative funds.

The potential cost of the additional benefits generated by the proposal could further jeopardize the solvency of the unemployment compensation trust fund (UCTF), because it removes a current charging mechanism in place used to replenish the fund.

The DOL received information from the United States Department of Labor (USDOL) regarding the proposed legislation. The USDOL indicated a potential conformity issue exists and reported allowing payment of unemployment compensation, as described in section 288.395.5 of the proposal, appear to violate the federal "withdrawal standards" under FUTA and the Social Security Act (SSA).

The proposal appears to provide additional unemployment compensation to an individual, who was employed and subsequently laid off by a (1) steel manufacturer doing business in Kansas City, Missouri and by (2) a vendor located in Kansas City, Missouri of a described steel manufacturer. Although DOL cannot identify all the employers who could meet these conditions, it would appear paying the additional benefits as proposed could have a significant impact to the UCTF. For instance, GST Steel in Kansas City, Missouri manufactures steel and has reported a permanent plant closing for mid-June 2001. In the 2000 calendar year, GST employed more than 800 individuals. Under current statute, most of these individuals would have a monetary eligibility of \$250 per week, with a total maximum eligibility of \$6,400 (26 weeks) during a 12-month benefit year. This is based on the first four of the last five completed calendar quarters at the time the claim was filed, which leaves the lag and current quarter to be usable at a later date. After the initial \$6,500 of the regular claim is exhausted, the proposal would allow an additional 26 weeks to be paid until the initial 12-month benefit year ended. The wages that were in the previous lag and current quarter when the first benefit year was established would be available for use on a second benefit year as provided under current statute. It is possible the individual could have earned minimal outside wages to remove a potential requalifying wage requirement, draw 26 weeks on the second benefit year with a potential \$250 weekly benefit amount under current law, and then receive 78 more weeks as provided by the proposal. Under this example, one individual could draw an additional \$26,000 in benefits under the proposal. An employer meeting these conditions with 800 employees such as GST could result

ASSUMPTION (continued)

in a cost of \$20,800,000 in additional benefits.

This cost would be paid directly from the UCTF. This could create a substantial reduction in the balance of the UCTF, since the proposal does not replenish the fund. Once the UCTF balance reaches certain levels, increased contribution rates to all employers would be triggered to replenish the fund. DOL reports that, under current law, the balance is projected to drop substantially by 2002, triggering a 20% increase to all employers calculated contribution rates, 30% in 2003 and each year thereafter until the fund is replenished. The proposal would cause further reduction of the balance, strengthening the threat to the fund's solvency. Further depletion of the fund could require advances from the Federal Government in order to pay benefits as required by law. Repayment of these advances and the interest associated would place an additional hardship on all employers.

The DOL cannot predict the number of employers meeting these conditions, the number of individuals laid off, the number of weeks claimed, amounts paid, and other factors in order to determine further impact to the UCTF, but believes it could be substantial. Also, an estimated one-time start up cost for computer programming is not included in this response, but is believed to be substantial.

Oversight assumes that any loss of federal funds would depend upon determination of nonconformity/noncompliance by the U.S. Department of Labor and the imposition of sanctions by the U.S. Department of Labor. The likelihood of such sanctions would be speculative. For fiscal note purposes, no impact to federal funds is reflected.

<u>FISCAL IMPACT - State Government</u>	FY 2002	FY 2003	FY 2004
UNEMPLOYMENT COMPENSATION TRUST FUND	<u>\$0 to</u> <u>(Unknown)</u>	<u>\$0 to</u> <u>(Unknown)</u>	<u>\$0 to</u> <u>(Unknown)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2002	FY 2003	FY 2004
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal could result in a substantial economic loss to all businesses because it does not appear to conform to Federal law. The amount of the impact to small businesses is unknown.

DESCRIPTION

The proposed legislation makes permanently laid off employees of certain steel manufacturers and their vendors eligible for extra unemployment compensation provided they meet the specified requirements.

This proposal has an emergency clause, and would be in effect upon its passage and approval.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Labor and Industrial Relations

A handwritten signature in black ink, appearing to read "Jeanne Jarrett".

Jeanne Jarrett, CPA
Director
April 17, 2001